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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

February 16, 2000

**Ex Parte**

Ms.Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th St., S.W. – The Portals
Washington, D.C. 20554

**Re: In the Matter of Implementation of The Local Competition Provisions in the Telecommunications Act of 1996 – CC Docket 96-98**

Dear Ms. Salas:

The attached letter and attachments is being submitted today to Jake Jennings of the Policy and Program Planning Division.

Please enter this letter and attachments into the record as appropriate. Should you have any questions please do not hesitate to contact me.

Sincerely,

Joe Mulieri

Attachment

Cc: J. Jennings
W. Sharkey
J. Donovan-May

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Mr. Jake Jennings
Policy and Program Planning Division
Federal Communications Commission
445 12 St., S.W. – The Portals
Washington, D.C. 20554

**Re: In the Matter of Implementation of The Local Competition Provisions in the Telecommunications Act of 1996 – CC Docket 96-98**

This letter provides supplemental information to the **Special Access Fact Report** submitted on behalf of Bell Atlantic in the above captioned proceeding.[1] In that report, information regarding the potential impact of converting special access services to UNEs was detailed. Certain information contained in the report was competitively sensitive in nature and pursuant to 5 U.S.C. Section 552 (b)(4) and 47 C.F.R. Section 0.457(d) was provided under confidential seal.

The material attached herein also contains competitively sensitive financial and commercial data and is provided under confidential seal pursuant to the rules and regulations cited preceding. However, since this supplemental submission also contains material which can be made available for public inspection, Bell Atlantic is providing both a redacted version which is available for public inspection, and, an unredacted version which is identified as **Confidential Version** and is not for public inspection and should be treated confidentially and available only for review by the Commission and its staff. Pursuant to Section 0.459(e), the confidential information provided is being submitted voluntarily and Bell Atlantic requests that the Commission return the material without consideration if the request for confidentiality is denied.

Should you have questions regarding this material please do not hesitate to contact me.

Sincerely,

Joe Mulieri

Attachments

Cc: W. Sharkey
J. Donovan-May

[1] *See* Special Access Fact Report by Peter W. Huber and Evan T. Leo, submitted by the United States Telephone Association on January 19, 2000, CC Docket 96-98.

**(Redacted Version - Public)**

**SUPPLEMENTAL INFORMATION TO FCC ON SPECIAL ACCESS FACT REPORT – BELL ATLANTIC**

1) Explain how the revenue numbers were derived. Also, to the extent that revenue numbers can be approximately validated via data on file with the FCC, e.g., ARMIS, identify which one and methodology for doing it.

**Response:** The revenue data was based on internal business estimates of gross 1999 interstate and intrastate special access revenues based on prior years' revenue, adjusted for projected growth (calculated for each state). Certain product revenues were excluded from the above amount because the revenues were not eligible for conversion to EEL/UNE arrangements (e.g., shared and dedicated SONET, inter light wave), or because the revenue amounts were immaterial (e.g., program audio video, metallic, telegraph). The total revenue amounts that were excluded were not material in amount relative to total special access revenues. The adjustments for exclusions, which were not material in amounts, were also made on a state by state basis.

A check to ensure reasonableness can be performed by analyzing ARMIS data. For example, Interstate Special Access revenues reported for Bell Atlantic in total for 1998 were $1.5 billion. Rough internal estimates based on 11 months of data for 1999 that will feed into ARMIS when it is filed (around April 1), yielded an annualized 1999 estimate of $1.9 billion for "network access services" revenues. This is close to the Bell Atlantic provided estimate of $1.6 billion for interstate special access (after exclusions) for 1999 ( Table 7 of Special Access Report ).

2) How was the percentage of revenues under term contracts derived?

**Response:** Demand data for 1998 ( filed in the 7/99 Price cap filing based on CABS data ) was reviewed and priced out using 7/99 prices for DDS, DS1, and DS3 for both the North and South states in the Bell Atlantic region. This was done for month to month, 2-year, 3-year, 4-year, 5-year, and 7-year rate plans for the above services. The Bell Atlantic assumption that (redacted)% of the revenues are under long-term contracts, was based on a sample consisting of the South states only, since a Commitment Discount Plan ( CDP ) plan was introduced in the North toward the end of 1998 and this data was not reflected in the April 1998 demand data filed in Price cap plan. The CDP is a new long-term plan, which resulted in shifting more revenues to long-term and less revenue under a month to month retail rate, for the North only

3) Explain the methodology for revenue growth rates. If the number is not auditable from sourced revenue numbers, identify other factors that impacted growth assumptions.

**Response:** Revenue growth rates were based on the growth rates reflected in Bell Atlantic's Business plan. The growth rates reflect the underlying historical growth rates for inter and intra special access revenues as reflected in the CABS data. The historical rates were adjusted for any additional knowledge of the CLEC and wireless markets. In general, the growth rates used for the analysis, range from (by state) (redacted)% to (redacted)% for the first year and from (redacted)% to (redacted)% for the second year. A reasonableness check for the projected growth rates can be performed, by looking at recent past growth rates in ARMIS.

4) Price-out of illustrative special access circuits at tariff rates versus UNE rates (by state). Given that data in the report was provided on company wide basis, explain how the UNE/tariff rate differential was determined.

**Response:**

## SOURCES FOR SPECIAL ACCESS AND UNE RATES

| | |
|---|---|
| **Intrastate Special Access** | Intrastate tariffs. 3-year rate, by density cell, where available, otherwise month-to-month used. |
| **Interstate Special Access** | FCC tariffs. 3-year rate, where available, otherwise month-to-month rate used. FCC Zone 1 rates used. |
| **UNEs** | By state, currently approved UNE rates, otherwise used interim or proposed rates, by density cell where available. |

Nonrecurring charges are amortized over three years.

## EXPLANATION OF HOW
## UNE EEL /SPECIAL ACESS DISCOUNTS WERE CALCUATED

- The attached analyses for New York and Pennsylvania are included to illustrate how Bell Atlantic calculated the discount difference between UNE and Special Access prices. (See Attachments B & C)

- The analysis was based on a comparison of prices for comparable components of a special access circuit versus an EEL which is made up of a combination of loop, transport and multiplexing. This comparison was performed for VG to DS1 and DS1 to DS3 circuit configurations, as shown in the attached diagram (Attachment A) for all the states.

- The prices for the Special Access components were based on the FCC Zone 1 (defined by wire centers) pricing for a 3-year term plan. The UNE prices were by state and by density cell as defined by individual states (state density cells where available, are defined by wire centers as well). There are no UNE rates that correspond to a "term plan", so only the single state approved UNE rate was used.

- The UNE/Special Access discounts or effective revenue loss was developed for each circuit configuration as shown in the diagram for circuits (Attachment A), by applying the appropriate price for each component by state, density cell and then calculating the percent difference.

- The discounts calculated in the above manner, and detailed in the analyses for NY and PA in the attached examples (Attachments B & C) were then used to develop composite weighted discounts for all service types by Product Revenue Category. Those composite weighted discounts for each state, were developed by taking the sum of the discounts by a density cell, weighted by Product Revenue Category (e.g., Voice Grade, DS-1, DS-3).

- As explained above, the density cells were mapped to specific wire centers.

- These composite percentages were applied to appropriate wire center revenue to determine the overall revenue loss on a flash cut basis.

5) Explain how termination liability offsets to revenues were determined.

**Response:**

Method to Determine Termination Liability Revenues:

- Estimated year 1 and year 2 interstate and intrastate special access revenues as calculated in #1, was the starting point.

- 80% of the revenues were estimated to be under long term contracts and this factor was applied to the starting point revenues (as calculated in #1 above) to determine revenues in termination plans. (See further explanation in number # 2 above for the (redacted)% assumption.)

- The estimated average length of (redacted) years remaining in termination plans was multiplied by the total revenues under long-term plans, as calculated above, to estimate the amount of revenues under long term plans over the remaining average contract life. AT&T's commitment in BA-North's CDP ends at the end of 2002 -- or (redacted) years from June 2000. Detailed study data for all carriers was not available; therefore, (redacted) years was assumed as the average time left in term plans for all carriers.

- For the original data submission, Bell Atlantic estimated that termination liability, as a percent of annual revenue, was (redacted)%. The (redacted)%, assumption was an estimate, based on the existing terms and conditions then in effect for termination liability in Bell Atlantic's tariffs.

- In the course of preparing this data report, BA reviewed the method for obtaining the (redacted)% factor and realized that the (redacted)% assumption was understated and therefore the original termination liability amounts were overstated. Attached to this report are also the recalculated financial impact data to reflect the new termination liability revenue offset. Bell Atlantic used the method described below to recalculate termination liability: The new assumption of (redacted)% was developed, using the following steps:

    - In order to determine termination liability charges as a percent of annual revenue, a sample circuit was priced out at 5-year .term prices. The sample circuit used was a DS3 channel termination, 3/1 multiplexer, 20 DS1s, each with 12 miles. The circuit is to be disconnected after (redacted) years.

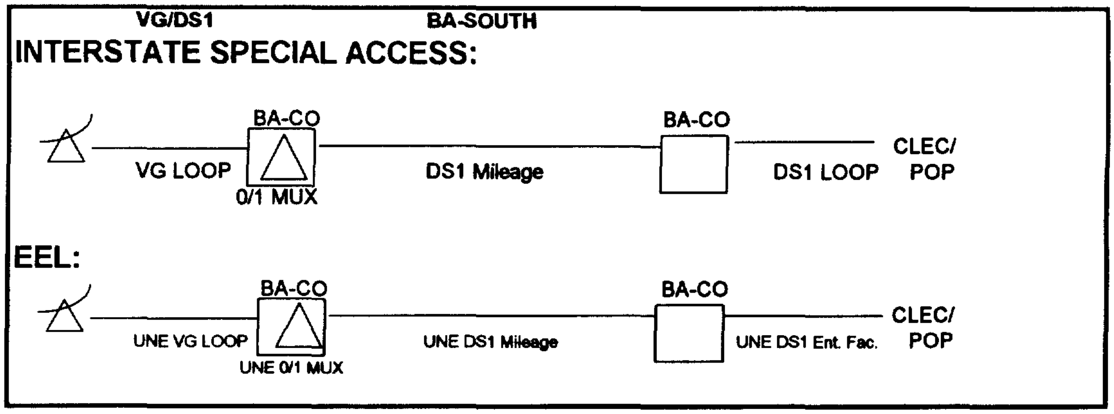
    - In BA-South, termination liability has two options (with the customer able to choose the least costly option). Option 1 specifies that the customer will be liable for 15% of the total monthly charges for the remaining portion of the term plan. Option 2 specifies that where there is <u>no</u> Term Pricing Plan ( TPP ) period less than the actual time-in-service, the termination liability charge will be the difference between the month-to-month rate and the selected term plan rate for the period the plan has been in effect. ( For example, if a customer selected a 5 year plan and terminated after only one year and two months of in-service time, the liability would be the difference between the month to month rates and the 5-year rates times the 14 months that the customer was under the plan, because there is no term plan for a year. ) Where there is a TPP period less than the actual time-in-service, the termination liability charge will be the difference between the monthly rate for the highest TPP period that could have been satisfied prior to discontinuation of the specific term plan service. ( For example, if a customer was under a 5-year plan and discontinued after three years and two months, the liability would be the difference between the 5-year rates and the 3-year rates times the three years and two months that the customer was under the plan )

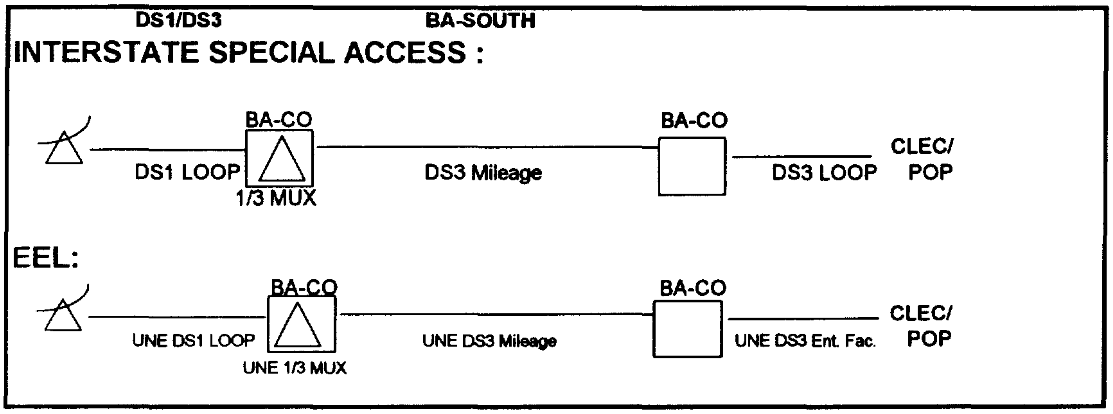
- In BA-North, termination liability charges are similar to BA-South, except the Option 1 charges the customer 50% of the total monthly charges for the remaining portion of the plan.
- The average of the best results ( that is the cheapest options for term plan customers to utilize ), i.e., for BA-North (Option 2) and BA-South (Option 1), is (redacted)%. In other words, (redacted)% means that (redacted) years' worth of termination liability revenue equates to (redacted)% of annual revenue. The annual equivalent of (redacted)% would be (redacted)%, i.e., (redacted)% divided by (redacted) years).

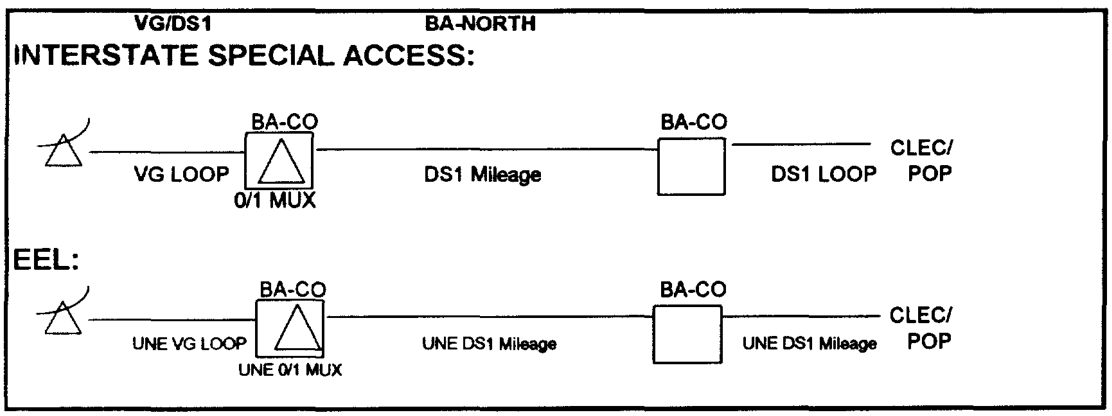
- The annual year 1 and year 2 amortized termination liability used the average of (redacted) years, or (redacted)% of the liability in each of year one and two. This was to align the termination liability over the remaining average life of the plans.
- The net revenue impact in year 1 and year 2 was the sum of the annual amortized termination liability and the estimated impact to net revenues if special access is flash-cut to UNEs.
- As a result of the revised percentage of termination liability revenue of total revenue, BA's Table 8 in the Special Access Report should be revised to show "Net Revenue Loss " for interstate special access of -$(redacted) million and -$(redacted) million respectively for year one and two. Correspondingly, the new impacts for intrastate special access are revised to -$(redacted) million in year one and, -$(redacted) million in year two. (Attachment D)

6) Explain how the interstate/intrastate revenue ratio was derived.

<u>Response:</u> For Bell Atlantic, the intrastate Special Access revenues were a small portion of total special access revenues (less than 3%). Bell Atlantic adjusted revenues for jurisdiction using a revenue ratio based on data in CABS.


VG/DS1
BA-SOUTH
INTERSTATE SPECIAL ACCESS:
BA-CO
VG LOOP
0/1 MUX
DS1 Mileage
BA-CO
DS1 LOOP
CLEC/
POP
EEL:
BA-CO
UNE VG LOOP
UNE 0/1 MUX
UNE DS1 Mileage
BA-CO
UNE DS1 Ent. Fac.
CLEC/
POP


DS1/DS3
BA-SOUTH
INTERSTATE SPECIAL ACCESS :
BA-CO
DS1 LOOP
1/3 MUX
DS3 Mileage
BA-CO
DS3 LOOP
CLEC/
POP
EEL:
BA-CO
UNE DS1 LOOP
UNE 1/3 MUX
UNE DS3 Mileage
BA-CO
UNE DS3 Ent. Fac.
CLEC/
POP


VG/DS1
BA-NORTH
INTERSTATE SPECIAL ACCESS:
BA-CO
VG LOOP
0/1 MUX
DS1 Mileage
BA-CO
DS1 LOOP
CLEC/
POP
EEL:
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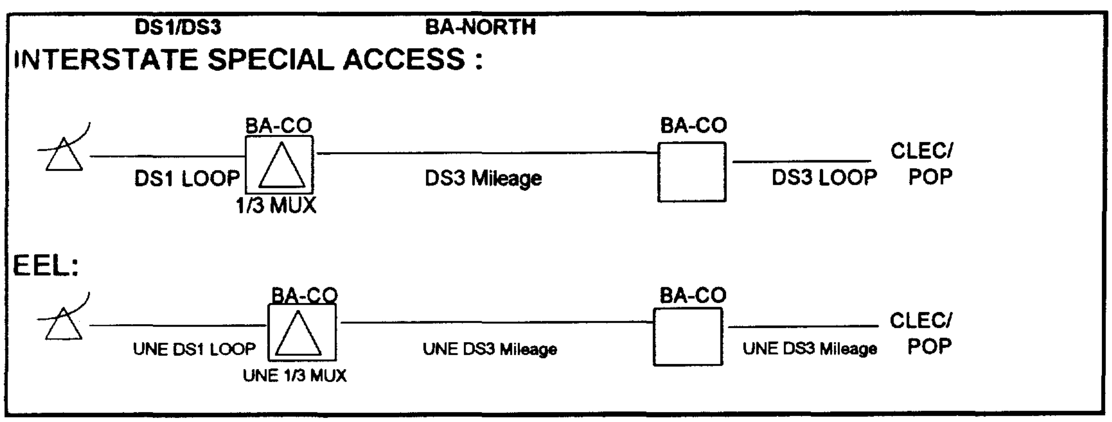
UNE VG LOOP
UNE 0/1 MUX
UNE DS1 Mileage
BA-CO
UNE DS1 Mileage
CLEC/
POP


DS1/DS3
BA-NORTH
INTERSTATE SPECIAL ACCESS :
BA-CO
DS1 LOOP
1/3 MUX
DS3 Mileage
BA-CO
DS3 LOOP
CLEC/
POP
EEL:
BA-CO
UNE DS1 LOOP
UNE 1/3 MUX
UNE DS3 Mileage
BA-CO
UNE DS3 Mileage
CLEC/
POP

## NEW YORK

| VG/DS1 | BA-NY | | | |
|---|---|---|---|---|
| 2W VG LOOP, MUX, DS1 Mileage, DS1 LOOP | | | | |
| INTERSTATE ACCESS | loops | Manhattan | Mjr cities excluding Manhattan | All other |
| Channel Term VG | 1 | | | |
| Transmission Fn. | | | | |
| Channel Term DS1 | 1 | | | |
| Channel Term DS1 mileage | | | | |
| Mileage DS1/ FACTOR | DS1 | | | |
| Multiplexing | | | | |
| NRC (NONRECURRING CHARGE) Channel Term VG | | | | |
| NRC Channel Term DS1 | | | | |
| NRC Mileage DS1/FACTOR | | | | |
| NRC Multiplexing | | | | |
| INTERSTATE ACCESS | per VG | | | |
| EEL VG LOOP,MUX,DS1 MILE | loops | Manhattan | Mjr cities excluding Manhattan | All other |
| UNE VG Loop | ? | | | |
| UNE DS1 Mileage | ? | | | |
| UNE Multiplexing 0/1 | | | | |
| Link Connection (DS1 per DS0) | | | | |
| Acces to OSS | | | | |
| Glue Fee | | | | |
| Access to OSS | | | | |
| NRC UNE srv. ord. & one VG loop installation | | | | |
| NRC UNE DS1 IOF mileage installation only | | | | |
| NRC UNE 0/1 multiplexing installation only | | | | |
| EEL | per VG | | | |
| EEL Diff. INTERSTATE ACCESS | | #DIV/0! | #DIV/0! | #DIV/0! |

NOTE: Nonrecurring charges amortized over 3 years.
NOTE: Analysis does not include reciprocal compensation.

| DS1/DS3 | BA-NY | | | |
|---|---|---|---|---|
| DS1 LOOP,MUX, DS3 Mileage, DS3 LOOP | | | | |
| INTERSTATE ACCESS | loops | Manhattan | Mjr cities excluding Manhattan | All other |
| Channel Term DS1 | 1 | | | |
| Channel Term DS1 mileage | | | | |
| Channel Term DS3 | 1 | | | |
| Channel Term DS3 mileage | | | | |
| Mileage | DS3 | | | |
| Multiplexing | | | | |
| NRC Channel Term DS1 | | | | |
| NRC Channel Term DS3 | | | | |
| NRC Mileage | | | | |
| NRC 1/3 Multiplexing | | | | |
| INTERSTATE ACCESS | per DS1 | | | |
| EEL DS1 LOOP,MUX,DS3 MILE | loops | Manhattan | Mjr cities excluding Manhattan | All other |
| UNE DS1 Loop | 1 | | | |
| UNE DS3 Mileage per DS1 | DS3 | | | |
| UNE Multiplexing per DS1 | | | | |
| Link Connection per DS1 | | | | |
| Access to OSS | | | | |
| Glue Fee | | | | |
| NRC UNE srv. ord. & one DS1 loop installation | | | | |
| NRC UNE DS3 IOF (mileage) installation only | | | | |
| NRC UNE 1/3 Multiplexing installation only | | | | |
| EEL | per DS1 | | | |
| EEL Diff. INTERSTATE ACCESS | | | | |

NOTE: Nonrecurring charges amortized over 3 years.
NOTE: Analysis does not include reciprocal compensation.

## PENNSYLVANIA

| VG/DS1 | BA-PA | | | | |
|---|---|---|---|---|---|
| 2W VG LOOP, MUX, DS1 Mileage,DS1 LOOP | | | | | |
| INTERSTATE ACCESS | loops | DC 1 | DC 2 | DC 3 | DC 4 |
| Channel Term VG | 1 | | | | |
| Transmission Fn. | | | | | |
| Channel Term DS1 | 1 | | | | |
| Mileage DS1/ FACTOR | DS1 | | | | |
| Multiplexing | | | | | |
| NRC (NONRECURRING CHARGE) Channel Term VG | | | | | |
| NRC Channel Term DS1 | | | | | |
| NRC Mileage | | | | | |
| NRC Multiplexing | | | | | |
| INTERSTATE ACCESS | per VG | | | | |
| EEL VG LOOP,MUX,DS1 MILE,DS1 Ent.Fac. | loops | DC 1 | DC 2 | DC 3 | |
| UNE VG Loop | 1 | | | | |
| UNE DS1 Entrance Facilities DS1/DS1 FACTOR | 1 | | | | |
| UNE DS1 Mileage | DS1 | | | | |
| UNE Multiplexing 0/1 | | | | | |
| Link Connection (DS1 per DS0) | | | | | |
| Access to OSS | | | | | |
| Glue Fee | | | | | |
| NRC UNE srv. ord. & one VG loop installation | | | | | |
| NRC UNE one DS1 ent.fac. installation only | | | | | |
| NRC UNE DS1 IOF mileage installation only | | | | | |
| NRC UNE 0/1 multiplexing installation only | | | | | |
| EEL | per VG | | | | |
| EEL Diff. INTERSTATE ACCESS | | #DIV/0! | #DIV/0! | #DIV/0! | |

NOTE: Nonrecurring charges amortized over 3 years.
NOTE: Analysis does not include reciprocal compensation.

| DS1/DS3 | BA-PA | | | |
|---|---|---|---|---|
| DS1 LOOP,MUX, DS3 Mileage, DS3 LOOP, No Collo | | | | |
| INTERSTATE ACCESS | loops | DC 1 | DC 2 | DC 3 |
| Channel Term DS1 | 1 | | | |
| Channel Term DS3 | 1 | | | |
| Mileage | DS3 | | | |
| Multiplexing | | | | |
| NRC Channel Term DS1 | | | | |
| NRC Channel Term DS3 | | | | |
| NRC Mileage | | | | |
| NRC 1/3 Multiplexing | | | | |
| INTERSTATE ACCESS | per DS1 | | | |
| EEL DS1 LOOP,MUX,DS3 MILE,DS3 Ent. Fac., No Collo | | | | |
| | loops | DC 1 | DC 2 | DC 3 |
| UNE DS1 Loop | 1 | | | |
| UNE DS3 Entrance Facilities | 1 | | | |
| UNE DS3 Mileage | DS3 | | | |
| UNE Multiplexing 3/1 | | | | |
| Link Connection | | | | |
| Access to OSS | | | | |
| Glue Fee | | | | |
| NRC UNE srv. ord. & one DS1 loop installation | | | | |
| NRC UNE one DS3 ent.fac. Installation only | | | | |
| NRC UNE DS3 IOF (mileage) installation only | | | | |
| NRC UNE 1/3 Multiplexing installation only | | | | |
| EEL | per DS1 | | | |
| EEL Diff. INTERSTATE ACCESS | | #DIV/0! | #DIV/0! | #DIV/0! |

NOTE: Nonrecurring charges amortized over 3 years.
NOTE: Analysis does not include reciprocal compensation.

## Initial Calculation of Vulnerable Special Access Revenues Subject to Termination Liabilities

| | | Year 1 | | | Year 2 | | |
|---|---|---|---|---|---|---|---|
| | | Interstate | Intrastate | Total | Interstate | Intrastate | Total |
| 1 | Estimated Base Year Special Access Revenues with exclusion | | | | | | |
| 2 | Year over Year Growth | | | | | | |
| 3 | Estimated Special Access Revenues with exclusion (line 1 + line 2) | | | | | | |
| 4 | Percent Long Term Contracts (excludes month to month contracts) | | | | | | |
| 5 | Vulnerable Special Access Revenues in Termination Plans (line 3 x line 4) | | | | | | |
| 6 | Average Length of Years remaining in Termination Plans | | | | | | |
| 7 | Special Access Revenues in Termination Plans over average contract life (line 5 x line 6) | | | | | | |
| 8 | Termination Liability as a Percent of Annual Revenue | | | | | | |
| 9 | Termination Liability (line 7 x line 8) | | | | | | |
| 10 | Amortized Time remaining in Termination Plans | | | | | | |
| 11 | Table 9 Annual Amortized Termination Liability (line 9 x line 10) | | | | | | |
| 12 | Table 9 Estimated Impact to Net Revenues if Special Access is flashcut to UNEs | | | | | | |
| 13 | Table 8 Net Revenue Impact (line 11 + line 12) | | | | | | |
| 14 | Table 10 net loss in MSA meeting 30% revenue Trigger ( line 13 x Y%) | | | | | | |
| 15 | Table 10 net loss in MSA meeting 65% revenue Trigger (line 13 x Y%) | | | | | | |
| 16 | Table 10 net loss in MSA meeting 85% revenue Trigger (line 13 x Y%) | | | | | | |

## Revised Calculation of Vulnerable Special Access Revenues Subject to Termination Liabilities

| | | Year 1 | | | Year 2 | | |
|---|---|---|---|---|---|---|---|
| | | Interstate | Intrastate | Total | Interstate | Intrastate | Total |
| 1 | Estimated Base Year Special Access Revenues with exclusion | | | | | | |
| 2 | Year over Year Growth | | | | | | |
| 3 | Estimated Special Access Revenues with exclusion (line 1 + line 2) | | | | | | |
| 4 | Percent Long Term Contracts (excludes month to month contracts) | | | | | | |
| 5 | Vulnerable Special Access Revenues in Termination Plans (line 3 x line 4) | | | | | | |
| 6 | Average Length of Years remaining in Termination Plans | | | | | | |
| 7 | Special Access Revenues in Termination Plans over average contract life (line 5 x line 6) | | | | | | |
| 8 | Termination Liability as a Percent of Annual Revenue | | | | | | |
| 9 | Termination Liability (line 7 x line 8) | | | | | | |
| 10 | Amortized Time remaining in Termination Plans | | | | | | |
| 11 | Table 9 Annual Amortized Termination Liability (line 9 x line 10) | | | | | | |
| 12 | Table 9 Estimated Impact to Net Revenues if Special Access is flashcut to UNEs | | | | | | |
| 13 | Table 8 Net Revenue Impact (line 11 + line 12) | | | | | | |
| 14 | [redacted] | | | | | | |
| 15 | Difference between corrected and original Net Revenue Impact | | | | | | |
| 16 | Table 10 net loss in MSA meeting 30% revenue Trigger (line 13 x Y%) | | | | | | |
| 17 | Table 10 net loss in MSA meeting 65% revenue Trigger (line 13 x Y%) | | | | | | |
| 18 | Table 10 net loss in MSA meeting 85% revenue Trigger (line 13 x Y%) | | | | | | |
| 19 | [redacted] | | | | | | |
| 20 | [redacted] | | | | | | |
| 21 | [redacted] | | | | | | |
| 22 | Difference between corrected and original 30% revenue trigger | | | | | | |
| 23 | Difference between corrected and original 65% revenue trigger | | | | | | |
| 24 | Difference between corrected and original 85% revenue trigger | | | | | | |